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NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/27/08

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2006

SPILSBURY, HAMILTON, LEGENDRE & PACIERA
CERTIFIED PUBLIC ACCOUNTANTS

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES

Year Ended December 31, 2006

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SPILSBURY, HAMILTON, LEGENDRE & PACIERA

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MEMBERS OF
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
New Orleans Neighborhood Development Foundation
and Subsidiaries
New Orleans, Louisiana

We have audited the accompanying consolidated statement of financial position of New Orleans Neighborhood Development Foundation and Subsidiaries ("the Foundation") (a non-profit organization) as of December 31, 2006, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements and, in our report dated June 18, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Orleans Neighborhood Development Foundation and Subsidiaries as of December 31, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
New Orleans Neighborhood Development Foundation
and Subsidiaries

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007 on our consideration of New Orleans Neighborhood Development Foundation and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of New Orleans Neighborhood Development Foundation and Subsidiaries taken as a whole. The consolidating schedules included in the supplementary information were presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Spilsbury, Hamilton, Legendre & Paciera -

November 15, 2007

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006
(With Summarized Financial Information
at December 31, 2005)

| | <u>2006</u> | <u>2005</u> |
|--------------------------------|--------------------|--------------------|
| <u>ASSETS</u> | | |
| <u>CURRENT ASSETS</u> | | |
| Cash | \$ 453,856 | \$ 285,017 |
| Certificates of deposit | 75,325 | 24,933 |
| Accounts receivable | 253,155 | 99,759 |
| Prepaid expenses | <u>171</u> | <u>401</u> |
| Total Current Assets | <u>782,507</u> | <u>410,110</u> |
| <u>INVESTMENTS</u> | | |
| Mutual funds | 143,416 | 131,638 |
| Closely-held corporate stock | 561 | 561 |
| Land | 80,907 | 130,228 |
| Land improvements | <u>230,317</u> | <u>522,712</u> |
| Total Investments | <u>455,201</u> | <u>785,139</u> |
| <u>PROPERTY AND EQUIPMENT</u> | | |
| Office furniture and equipment | 65,639 | 60,732 |
| Less: Accumulated depreciation | <u>57,587</u> | <u>56,331</u> |
| Total Property and Equipment | <u>8,052</u> | <u>4,401</u> |
| Total Assets | <u>\$1,245,760</u> | <u>\$1,199,650</u> |

See accompanying notes to financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)
DECEMBER 31, 2006
(With Summarized Financial Information
at December 31, 2005)

| | <u>2006</u> | <u>2005</u> |
|--|--------------------|--------------------|
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 113,544 | \$ 8,632 |
| Payroll taxes payable | 16,159 | 20,279 |
| Accrued salaries | 3,663 | 3,038 |
| Accrued vacation | 5,317 | 1,870 |
| Current portion of long-term notes payable | 21,250 | 20,000 |
| Line of credit | <u>124,917</u> | <u>500,178</u> |
| <i>Total Current Liabilities</i> | 284,850 | 553,997 |
| <u>LONG-TERM NOTES PAYABLE</u> | <u>3,750</u> | <u>5,000</u> |
| <i>Total Liabilities</i> | <u>288,600</u> | <u>558,997</u> |
| <u>NET ASSETS</u> | | |
| Unrestricted net assets | 942,782 | 626,275 |
| Temporarily restricted net assets | <u>14,378</u> | <u>14,378</u> |
| <i>Total Net Assets</i> | <u>957,160</u> | <u>640,653</u> |
| <i>Total Liabilities and Net Assets</i> | <u>\$1,245,760</u> | <u>\$1,199,650</u> |

See accompanying notes to financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006
(With Summarized Financial Information
for the Year Ended December 31, 2005)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total 2006</u> | <u>Total 2005</u> |
|--|----------------------|-----------------------------------|-----------------------|-----------------------|
| <u>SUPPORT AND REVENUE</u> | | | | |
| Corporate donations | \$254,531 | \$ 0 | \$254,531 | \$123,603 |
| Foundation donations | 159,353 | 0 | 159,353 | 55,909 |
| Individual donations | 1,059 | 0 | 1,059 | 100 |
| In-kind donations | 18,500 | 0 | 18,500 | 16,323 |
| Registration fees | 0 | 0 | 0 | 6,659 |
| Registration fees - Program income | 0 | 0 | 0 | 5,886 |
| Fund raising - House party | 0 | 0 | 0 | 64,288 |
| Interest income | 804 | 0 | 804 | 1,034 |
| Dividend income | 8,422 | 0 | 8,422 | 5,907 |
| Miscellaneous income | 6,808 | 0 | 6,808 | 7,590 |
| Grant income | 450,949 | 0 | 450,949 | 200,991 |
| Landlord training fees | 0 | 0 | 0 | 990 |
| Contract services | 0 | 0 | 0 | 900 |
| Development fee income | 30,000 | 0 | 30,000 | 1,500 |
| Unrealized gains (losses) on investments | 7,407 | 0 | 7,407 | (475) |
| Net gain on sale of property | <u>0</u> | <u>0</u> | <u>0</u> | <u>19,053</u> |
| Total Support and Revenue | <u>\$937,833</u> | <u>\$ 0</u> | <u>\$937,833</u> | <u>\$510,258</u> |

See accompanying notes to financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
(Continued)

YEAR ENDED DECEMBER 31, 2006

(With Summarized Financial Information
for the Year Ended December 31, 2005)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total 2006</u> | <u>Total 2005</u> |
|---|---------------------|-----------------------------------|-----------------------|-----------------------|
| EXPENSES AND LOSSES | | | | |
| Program Services: | | | | |
| Affordable housing program | \$437,464 | \$ 0 | \$437,464 | \$317,841 |
| Rehabilitation program | <u>0</u> | <u>0</u> | <u>0</u> | <u>557</u> |
| Total Program Services | 437,464 | 0 | 437,464 | 318,398 |
| Supporting Services: | | | | |
| Fund-raising | 0 | 0 | 0 | 20,057 |
| Management and general | 183,862 | 0 | 183,862 | 194,763 |
| Total Supporting Services | 183,862 | 0 | 183,862 | 214,820 |
| Loss due to involuntary conversion | <u>0</u> | <u>0</u> | <u>0</u> | <u>6,898</u> |
| Total Expenses and Losses | 621,326 | 0 | 621,326 | 540,116 |
| CHANGE IN NET ASSETS | 316,507 | 0 | 316,507 | (29,858) |
| Net Assets - Beginning of Year, as previously reported | 640,232 | 14,378 | 654,610 | 684,468 |
| Prior year adjustment | (13,957) | 0 | (13,957) | 0 |
| Net Assets - Beginning of Year, as restated | 626,275 | 14,378 | 640,653 | 684,468 |
| Net Assets - End of Year | \$942,782 | \$14,378 | \$957,160 | \$654,610 |

See accompanying notes to financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006
(With Summarized Financial Information
for the Year Ended December 31, 2005)

| | <u>Program Services Affordable Housing Program</u> | <u>Supporting Services Management and General</u> |
|---|--|---|
| Salaries | \$106,703 | \$ 59,042 |
| Employees' retirement benefits and medical insurance | 11,247 | 6,223 |
| Payroll taxes | <u>8,305</u> | <u>4,596</u> |
| <i>Total Employee Compensation</i> | 126,255 | 69,861 |
| Advertising | 17,882 | 0 |
| Bad debt | 19,316 | 0 |
| Bank charges | 0 | 191 |
| Board expenses | 0 | 0 |
| Catering | 0 | 0 |
| Contract services | 1,477 | 0 |
| Credit services | 5,930 | 0 |
| Depreciation | 0 | 1,256 |
| Donations | 0 | 0 |
| Dues and subscriptions | 0 | 0 |
| Education supplies | 0 | 0 |
| Entertainment | 0 | 0 |
| Facility rental | 0 | 0 |
| Housing assistance | 0 | 24,600 |
| Insurance | 6,590 | 13,033 |
| Interest | 0 | 0 |
| Landlord training | 0 | 0 |
| Loss on housing development | 98,465 | 0 |
| Mileage reimbursement | 0 | 1,233 |
| Miscellaneous | 0 | 5,279 |
| Mortgage assistance | 30,000 | 0 |
| Office expense | 0 | 11,005 |
| Office rent | 0 | 12,985 |
| Office supplies and equipment | 851 | 6,461 |
| Postage | 0 | 2,664 |
| Printing | 2,652 | 3,414 |
| Professional services | 104,870 | 7,000 |
| Property maintenance | 21,753 | 3,300 |
| Public relations | 0 | 0 |
| Taxes and licenses | 820 | 5 |
| Telephone | 603 | 11,716 |
| Travel | <u>0</u> | <u>9,859</u> |
| <i>Total</i> | <u>\$437,464</u> | <u>\$183,862</u> |

See accompanying notes to financial statements.

| <u>Total</u> | |
|------------------|------------------|
| <u>2006</u> | <u>2005</u> |
| \$165,745 | \$225,331 |
| 17,470 | 24,174 |
| <u>12,901</u> | <u>17,882</u> |
| 196,116 | 267,387 |
| 17,882 | 1,891 |
| 19,316 | 0 |
| 191 | 1,062 |
| 0 | 1,299 |
| 0 | 6,732 |
| 1,477 | 0 |
| 5,930 | 3,931 |
| 1,256 | 2,963 |
| 0 | 175 |
| 0 | 780 |
| 0 | 5,371 |
| 0 | 2,400 |
| 0 | 3,486 |
| 24,600 | 0 |
| 19,623 | 5,710 |
| 0 | 6,975 |
| 0 | 22 |
| 98,465 | 0 |
| 1,233 | 1,374 |
| 5,279 | 10,821 |
| 30,000 | 55,000 |
| 11,005 | 10,996 |
| 12,985 | 15,779 |
| 7,312 | 13,967 |
| 2,664 | 3,695 |
| 6,066 | 8,740 |
| 111,870 | 84,168 |
| 25,053 | 1,837 |
| 0 | 2,809 |
| 825 | 1,323 |
| 12,319 | 7,675 |
| <u>9,859</u> | <u>4,850</u> |
| <u>\$621,326</u> | <u>\$533,218</u> |

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006
(With Summarized Financial Information
for the Year Ended December 31, 2005)

| | <u>2006</u> | <u>2005</u> |
|--|----------------|-----------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$316,507 | \$(29,858) |
| Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | 1,256 | 2,963 |
| Unrealized (gains) losses on investments | (7,407) | 475 |
| Loss on Housing development | 98,465 | 0 |
| Interest reinvested in certificate of deposit | (1,615) | (515) |
| (Increase) decrease in receivables | (153,396) | 11,428 |
| Increase in payables | 58,503 | 18,429 |
| Increase in accrued salaries | 625 | 3,038 |
| Increase in accrued vacation | 3,447 | 0 |
| Decrease in prepaid expenses | 230 | 2,706 |
| (Gain) on sale disposal of assets | <u>0</u> | <u>(12,155)</u> |
| Net Cash Provided by (Used for) Operating Activities | <u>316,615</u> | <u>(3,489)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchase of land and land improvements | (121,459) | (48,456) |
| (Purchase of) proceeds from certificates of deposit | (48,777) | 25,000 |
| Purchase of investment securities | (4,371) | (64,310) |
| Proceeds from sale of land and land improvements | 407,000 | 125,000 |
| Purchase of property and equipment | <u>(4,907)</u> | <u>(4,691)</u> |
| Net Cash Provided by Investing Activities | <u>227,486</u> | <u>32,543</u> |

See accompanying notes to financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)
YEAR ENDED DECEMBER 31, 2006
(With Summarized Financial Information
for the Year Ended December 31, 2005)

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Payments on line of credit | \$(375,262) | \$(115,253) |
| Net Cash (Used for) Financing Activities | (375,262) | (115,253) |
| Net Increase (Decrease) in Cash | 168,839 | (86,199) |
| Cash at Beginning of Year | <u>285,017</u> | <u>371,216</u> |
| Cash at End of Year | <u>\$ 453,856</u> | <u>\$ 285,017</u> |

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for -

| | | |
|--------------|-------------|-------------|
| Interest | \$8,192 | \$6,975 |
| Income taxes | \$ <u>0</u> | \$ <u>0</u> |

Supplemental Disclosure of Non-Cash Financing Activity

| | | |
|---|-------------|-------------|
| Purchase of land and improvements through line of credit | \$ <u>0</u> | \$554,683 |
| Forgiveness of line of credit liability | \$ <u>0</u> | \$4,787 |
| Purchase of land and improvements through accounts payable | \$42,289 | \$ <u>0</u> |

See accompanying notes to financial statements.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

A. General Information

The New Orleans Neighborhood Development Foundation ("the Foundation") was incorporated under the laws of the State of Louisiana on April 15, 1986. Its mission is to help low and moderate income families become homeowners, with the specific aim of placing at least 100 low and moderate income families in their own homes each year.

Associated Neighborhood Development (AND), of which the Foundation is the sole member, was organized on September 16, 1996 as a Louisiana corporation. The operations of AND consist of building and selling houses.

NDF Development, LLC, of which the Foundation is the sole member, was organized on September 11, 2001 as a Louisiana limited liability company. The operations of NDF Development, LLC, consist of building and selling houses.

B. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of New Orleans Neighborhood Development Foundation and its wholly-owned Subsidiaries, NDF Development, LLC, and Associated Neighborhood Development, Inc. All significant inter-Company transactions have been eliminated.

Basis of Accounting and Presentation

Assets and liabilities, and support, revenue and expenses are recognized on the accrual basis of accounting.

The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Made," and SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. SFAS No. 116 requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. A description of the three net asset categories follows.

Unrestricted Net Assets - Net assets which are not subject to donor-imposed restrictions.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 2006

Summary of Significant Accounting Policies (Cont'd)

Basis of Accounting and Presentation (Cont'd)

Temporarily Restricted Net Assets - Net assets which are subject to donor-imposed restrictions that may be met by the actions of the Foundation or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets stipulate that the income earned on related investments be used for specific purposes.

The Foundation has no permanently restricted assets, liabilities or activities.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

Property and Equipment

Property and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Major additions are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (3 - 7 years) on a straight-line basis. Depreciation charged against operations for 2006 amounted to \$1,256.

Property and equipment for the year ended December 31, 2006 consists of the following.

| | |
|--------------------------------|-----------------|
| Office furniture and equipment | \$65,639 |
| Less: Accumulated depreciation | <u>57,587</u> |
| | \$ <u>8,052</u> |

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 2006

Summary of Significant Accounting Policies (Cont'd)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

In-kind Donations

Certain donated materials, facilities and services are reflected as contributions in the accompanying statements at their estimated fair values at the date of receipt, with a corresponding amount being charged to the appropriate expense accounts. Contributed services are as follows: legal and accounting amounted to \$3,500; and project management amounted to \$15,000. In addition, a substantial number of unpaid volunteers have donated significant amounts of their time to the development of the Foundation's program services and in its fund-raising campaigns; these services have not been recorded as contributions, as they do not create or enhance non-financial assets or require specialized skills. The value of these services is not disclosed, since a basis for determination is not readily available.

Investments

Investments are recorded in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the *Statement of Financial Position*. Unrealized gains and losses are included in the changes in unrestricted or temporarily restricted net assets, depending on whether or not there are donor-imposed restrictions on the gains and losses.

The Foundation carries its real estate investments at cost or at the fair value as of the dates the investments were donated to the Foundation.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 2006

Summary of Significant Accounting Policies (Cont'd)

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly no provision for income taxes has been reflected in the financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Cash Equivalents

For the purpose of the *Statement of Cash Flows*, all highly liquid accounts with an original maturity of three months or less are considered cash equivalents.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the *Statement of Activities*. Accordingly, certain costs have been allocated among programs and supporting services benefitted.

Capitalized Interest

All interest incurred on the line of credit is capitalized as part of the cost of land improvements. At December 31, 2006, there was \$1,967 of capitalized interest remaining in land improvements. During 2006, Associated Neighborhood Development, Inc. sold land improvements which included \$6,225 of capitalized interest costs.

C. Certificates of Deposit

The Foundation has three certificates of deposit totaling \$75,325.

D. Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are stated at fair value, which is based on quoted market prices for those investments. Investments in closely-held stock were independently valued at the time the securities were donated. Since these securities do not have a readily determinable fair value, they are reported in the financial statements at their fair value as of the date of the gift. Real estate investments are stated at cost or at the fair value as of the dates the real estate investments were donated.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 2006

Investments (Cont'd)

| | |
|------------------------------|------------------|
| Mutual funds | \$143,416 |
| Closely-held corporate stock | 561 |
| Land | 80,907 |
| Land improvements | <u>230,317</u> |
| | <u>\$455,201</u> |

E. Notes Payable

Notes payable for the year ended December 31, 2006 consist of the following.

| | |
|--|----------|
| Unsecured note payable to a foundation, dated July 10, 1987, bearing interest at 3%, interest payable annually, payable on demand | \$15,000 |
|--|----------|

| | |
|--|---------------|
| Unsecured note payable to a foundation, dated August 29, 1990, bearing zero interest, payable in annual installments of \$1,250, maturing August 29, 2010 | <u>10,000</u> |
|--|---------------|

25,000

| | |
|--------------------------|---------------|
| Less: Current maturities | <u>21,250</u> |
|--------------------------|---------------|

| | |
|-------------------|-----------------|
| Long-term portion | <u>\$ 3,750</u> |
|-------------------|-----------------|

Aggregate maturities of long-term debt for the five years subsequent to December 31, 2006 are as follows.

| | |
|--------------|-----------------|
| December 31, | |
| 2007 | \$21,250 |
| 2008 | 1,250 |
| 2009 | 1,250 |
| 2010 | 1,250 |
| 2011 | <u>0</u> |
| | <u>\$25,000</u> |

F. Line of Credit

Associated Neighborhood Development, Inc. is authorized to borrow up to \$500,000 through a line of credit which matures March 31, 2007. Associated Neighborhood Development, Inc. assigned property being purchased as collateral. Interest is calculated at 4% per annum. At December 31, 2006, the balance outstanding on this line of credit was \$124,917.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 2006

G. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

| | |
|-----------------------------------|-----------------|
| Rehabilitation Program activities | <u>\$14,378</u> |
|-----------------------------------|-----------------|

H. Tax-Deferred Annuity Plan

During the year ended December 31, 1995, the Foundation entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees of the Foundation. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Foundation made no contributions for the year ended December 31, 2006.

I. Leases

The Foundation leased office space under an operating lease that required monthly payments of \$1,052 per month. This lease expired July 31, 2006. The Foundation then entered into a month-to-month lease requiring monthly payments of \$1. Beginning September 1, 2006, the Foundation was charged for utility consumption totally \$1,050 per month. Subsequent to year-end, the Foundation entered a lease commencing January 1, 2007 and terminating December 31, 2007 requiring monthly rental payments of \$3,000.

Office leasing expense for 2006 totaled \$12,985.

Associated Neighborhood Development, Inc. leases property to First Evangelist Housing and Community Development Corporation, an affiliated organization. The lease calls for annual payments of \$1 for 2006.

J. Concentration of Credit Risk

The Foundation maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Foundation had uninsured cash balances at one financial institution totaling \$163,695 at December 31, 2006.

K. Prior Period Adjustment

During 2006, it was determined that grant revenue and account receivable were overstated in the prior period. The cumulative effect of the prior period adjustment decreased beginning net assets by \$13,957.

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
DECEMBER 31, 2006

L. Subsequent Event

On May 8, 2007, Associated Neighborhood Development, Inc. sold land and land improvements for \$160,000.

SUPPLEMENTARY INFORMATION

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2006

ASSETS

| | <u>New Orleans Neighborhood Development Foundation</u> | <u>Associated Neighborhood Development Inc.</u> |
|--------------------------------|--|---|
| <u>CURRENT ASSETS</u> | | |
| Cash | \$412,385 | \$ 41,471 |
| Certificates of deposit | 75,325 | 0 |
| Accounts receivable | 42,945 | 304,062 |
| Prepaid expenses | <u>171</u> | <u>0</u> |
| Total Current Assets | <u>530,826</u> | <u>345,533</u> |
| <u>INVESTMENTS</u> | | |
| Mutual funds | 143,416 | 0 |
| Closely-held corporate stock | 561 | 0 |
| Land | 0 | 80,907 |
| Land improvements | <u>0</u> | <u>230,317</u> |
| Total Investments | <u>143,977</u> | <u>311,224</u> |
| <u>PROPERTY AND EQUIPMENT</u> | | |
| Office furniture and equipment | 65,639 | 0 |
| Less: Accumulated depreciation | <u>57,587</u> | <u>0</u> |
| Total Property and Equipment | <u>8,052</u> | <u>0</u> |
| Total Assets | <u>\$682,855</u> | <u>\$656,757</u> |

| <u>NDF Development, LLC</u> | <u>Combined</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-------------------------------------|--------------------|---------------------|---------------------|
| \$ 0 | \$ 453,856 | \$ 0 | \$ 453,856 |
| 0 | 75,325 | 0 | 75,325 |
| 7,104 | 354,111 | (100,956) | 253,155 |
| <u>0</u> | <u>171</u> | <u>0</u> | <u>171</u> |
| <u>7,104</u> | <u>883,463</u> | <u>(100,956)</u> | <u>782,507</u> |
| 0 | 143,416 | 0 | 143,416 |
| 0 | 561 | 0 | 561 |
| 0 | 80,907 | 0 | 80,907 |
| <u>0</u> | <u>230,317</u> | <u>0</u> | <u>230,317</u> |
| <u>0</u> | <u>455,201</u> | <u>0</u> | <u>455,201</u> |
| 0 | 65,639 | 0 | 65,639 |
| <u>0</u> | <u>57,587</u> | <u>0</u> | <u>57,587</u> |
| <u>0</u> | <u>8,052</u> | <u>0</u> | <u>8,052</u> |
| <u>\$7,104</u> | <u>\$1,346,716</u> | <u>\$(100,956)</u> | <u>\$1,245,760</u> |

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
(Continued)
DECEMBER 31, 2006

LIABILITIES AND NET ASSETS

| | <u>New Orleans Neighborhood Development Foundation</u> | <u>Associated Neighborhood Development, Inc.</u> |
|---|--|--|
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 98,561 | \$111,829 |
| Payroll taxes payable | 16,159 | 0 |
| Accrued salaries | 3,663 | 0 |
| Accrued vacation | 5,317 | 0 |
| Current portion of long-term notes payable | 21,250 | 0 |
| Line of credit | <u>0</u> | <u>124,917</u> |
| <i>Total Current Liabilities</i> | 144,950 | 236,746 |
| <u>LONG-TERM NOTES PAYABLE</u> | <u>3,750</u> | <u>0</u> |
| <i>Total Liabilities</i> | <u>148,700</u> | <u>236,746</u> |
| <u>NET ASSETS</u> | | |
| Unrestricted net assets | 519,777 | 420,011 |
| Temporarily restricted net assets | <u>14,378</u> | <u>0</u> |
| <i>Total Net Assets</i> | <u>534,155</u> | <u>420,011</u> |
| <i>Total Liabilities and Net Assets</i> | <u>\$682,855</u> | <u>\$656,757</u> |

| <u>NDF Development, LLC</u> | <u>Combined</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-------------------------------------|--------------------|---------------------|---------------------|
| \$4,110 | \$ 214,500 | \$(100,956) | \$ 113,544 |
| 0 | 16,159 | 0 | 16,159 |
| 0 | 3,663 | 0 | 3,663 |
| 0 | 5,317 | 0 | 5,317 |
| 0 | 21,250 | 0 | 21,250 |
| <u>0</u> | <u>124,917</u> | <u>0</u> | <u>124,917</u> |
| 4,110 | 385,806 | (100,956) | 284,850 |
| <u>0</u> | <u>3,750</u> | <u>0</u> | <u>3,750</u> |
| <u>4,110</u> | <u>389,556</u> | <u>(100,956)</u> | <u>288,600</u> |
| 2,994 | 942,782 | 0 | 942,782 |
| <u>0</u> | <u>14,378</u> | <u>0</u> | <u>14,378</u> |
| <u>2,994</u> | <u>957,160</u> | <u>0</u> | <u>957,160</u> |
| <u>\$7,104</u> | <u>\$1,346,716</u> | <u>\$(100,956)</u> | <u>\$1,245,760</u> |

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

| | <u>New Orleans Neighborhood Development Foundation</u> | | |
|---------------------------------|--|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| <u>SUPPORT AND REVENUE</u> | | | |
| Corporate donations | \$138,531 | \$ 0 | \$138,531 |
| Foundation donations | 159,353 | 0 | 159,353 |
| Individual donations | 1,059 | 0 | 1,059 |
| In-kind donations | 3,500 | 0 | 3,500 |
| Interest income | 804 | 0 | 804 |
| Dividend income | 8,422 | 0 | 8,422 |
| Miscellaneous income | 6,808 | 0 | 6,808 |
| Grant income | 120,392 | 0 | 120,392 |
| Development fee income | 0 | 0 | 0 |
| Unrealized gains on investments | <u>7,407</u> | <u>0</u> | <u>7,407</u> |
| Total Support and Revenue | <u>\$446,276</u> | <u>\$ 0</u> | <u>\$446,276</u> |

Associated
Neighborhood
Development,
Inc.

NDF
Development,
LLC

| <u>Total</u> | <u>Total</u> | <u>Combined</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|------------------|--------------|------------------|---------------------|---------------------|
| \$116,000 | \$ 0 | \$254,531 | \$ 0 | \$254,531 |
| 0 | 0 | 159,353 | 0 | 159,353 |
| 0 | 0 | 1,059 | 0 | 1,059 |
| 15,000 | 0 | 18,500 | 0 | 18,500 |
| 0 | 0 | 804 | 0 | 804 |
| 0 | 0 | 8,422 | 0 | 8,422 |
| 0 | 0 | 6,808 | 0 | 6,808 |
| 330,557 | 0 | 450,949 | 0 | 450,949 |
| 30,000 | 0 | 30,000 | 0 | 30,000 |
| <u>0</u> | <u>0</u> | <u>7,407</u> | <u>0</u> | <u>7,407</u> |
| <u>\$491,557</u> | <u>\$ 0</u> | <u>\$937,833</u> | <u>\$ 0</u> | <u>\$937,833</u> |

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES
(Continued)
YEAR ENDED DECEMBER 31, 2006

| | New Orleans Neighborhood Development Foundation | | |
|---|--|-----------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| <u>EXPENSES AND LOSSES</u> | | | |
| Program Services: | | | |
| Affordable housing program | \$ <u>169,625</u> | \$ <u>0</u> | \$ <u>169,625</u> |
| Supporting Services: | | | |
| Management and general | <u>169,993</u> | <u>0</u> | <u>169,993</u> |
| Total Expenses | <u>339,618</u> | <u>0</u> | <u>339,618</u> |
| <u>CHANGE IN NET ASSETS</u> | <u>106,658</u> | <u>0</u> | <u>106,658</u> |
| Net Assets - Beginning of Year, as previously reported | 427,076 | 14,378 | 441,454 |
| Prior Period Adjustment | <u>(13,957)</u> | <u>0</u> | <u>(13,957)</u> |
| Net Assets - Beginning of Year, as restated | <u>413,119</u> | <u>14,378</u> | <u>427,497</u> |
| Net Assets - End of Year | <u>\$519,777</u> | <u>\$14,378</u> | <u>\$534,155</u> |

Associated
Neighborhood
Development,
Inc.

NDF
Development,
LLC

| <u>Total</u> | <u>Total</u> | <u>Combined</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--------------|--------------|-----------------|---------------------|---------------------|
| \$267,839 | \$ 0 | \$437,464 | \$ 0 | \$437,464 |
| 13,869 | 0 | 183,863 | 0 | 183,862 |
| 281,708 | 0 | 621,326 | 0 | 621,326 |
| 209,849 | 0 | 316,507 | 0 | 316,507 |
| 210,162 | 2,994 | 654,610 | 0 | 654,610 |
| 0 | 0 | (13,957) | 0 | (13,957) |
| 210,162 | 2,994 | 640,653 | 0 | 640,653 |
| \$420,011 | \$2,994 | \$957,160 | \$ 0 | \$957,160 |

NEW ORLEANS NEIGHBORHOOD DEVELOPMENT FOUNDATION
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

| | New Orleans Neighborhood Development Foundation | | |
|---|--|---|-----------------------|
| | <u>Program Services Affordable Housing Program</u> | <u>Supporting Services Management and General</u> | <u>Sub- Total</u> |
| Salaries | \$106,703 | \$ 59,042 | \$165,745 |
| Employees' retirement benefits and medical insurance | 11,247 | 6,223 | 17,470 |
| Payroll taxes | <u>8,305</u> | <u>4,596</u> | <u>12,901</u> |
| Total Employee Compensation | 126,255 | 69,861 | 196,116 |
| Advertising and promotion | 4,876 | 0 | 4,876 |
| Bad debt | 19,316 | 0 | 19,316 |
| Bank charges | 0 | 80 | 80 |
| Contract services | 1,477 | 0 | 1,477 |
| Credit services | 5,930 | 0 | 5,930 |
| Depreciation | 0 | 1,256 | 1,256 |
| Housing assistance | 0 | 24,600 | 24,600 |
| Insurance | 617 | 13,033 | 13,650 |
| Loss on Housing development | 0 | 0 | 0 |
| Mileage reimbursement | 0 | 1,233 | 1,233 |
| Miscellaneous | 0 | 3,052 | 3,052 |
| Mortgage assistance | 0 | 0 | 0 |
| Office expense | 0 | 135 | 135 |
| Office rent | 0 | 12,985 | 12,985 |
| Office supplies and equipment | 851 | 6,461 | 7,312 |
| Postage | 0 | 2,664 | 2,664 |
| Printing | 2,652 | 3,414 | 6,066 |
| Professional services | 7,048 | 7,000 | 14,048 |
| Property maintenance | 0 | 3,300 | 3,300 |
| Taxes and licenses | 0 | 5 | 5 |
| Telephone | 603 | 11,113 | 11,716 |
| Travel | <u>0</u> | <u>9,801</u> | <u>9,801</u> |
| Total | <u>\$169,625</u> | <u>\$169,993</u> | <u>\$339,618</u> |

| Associated Neighborhood Development, Inc. | | | NDF Development, LLC | | | |
|--|---|-----------------------|----------------------------|------------------|---------------------|---------------------|
| <u>Program Services</u> <u>Affordable Housing Program</u> | <u>Supporting Services</u> <u>Management and General</u> | <u>Sub- Total</u> | <u>Sub- Total</u> | <u>Combined</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$165,745 | \$ 0 | \$165,745 |
| 0 | 0 | 0 | 0 | 17,470 | 0 | 17,470 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>12,901</u> | <u>0</u> | <u>12,901</u> |
| 0 | 0 | 0 | 0 | 196,116 | 0 | 196,116 |
| 13,006 | 0 | 13,006 | 0 | 17,882 | 0 | 17,882 |
| 0 | 0 | 0 | 0 | 19,316 | 0 | 19,316 |
| 0 | 111 | 111 | 0 | 191 | 0 | 191 |
| 0 | 0 | 0 | 0 | 1,477 | 0 | 1,477 |
| 0 | 0 | 0 | 0 | 5,930 | 0 | 5,930 |
| 0 | 0 | 0 | 0 | 1,256 | 0 | 1,256 |
| 0 | 0 | 0 | 0 | 24,600 | 0 | 24,600 |
| 5,973 | 0 | 5,973 | 0 | 19,623 | 0 | 19,623 |
| 98,465 | 0 | 98,465 | 0 | 98,465 | 0 | 98,465 |
| 0 | 0 | 0 | 0 | 1,233 | 0 | 1,233 |
| 0 | 2,227 | 2,227 | 0 | 5,279 | 0 | 5,279 |
| 30,000 | 0 | 30,000 | 0 | 30,000 | 0 | 30,000 |
| 0 | 10,870 | 10,870 | 0 | 11,005 | 0 | 11,005 |
| 0 | 0 | 0 | 0 | 12,985 | 0 | 12,985 |
| 0 | 0 | 0 | 0 | 7,312 | 0 | 7,312 |
| 0 | 0 | 0 | 0 | 2,664 | 0 | 2,664 |
| 0 | 0 | 0 | 0 | 6,066 | 0 | 6,066 |
| 97,822 | 0 | 97,822 | 0 | 111,870 | 0 | 111,870 |
| 21,753 | 0 | 21,753 | 0 | 25,053 | 0 | 25,053 |
| 820 | 0 | 820 | 0 | 825 | 0 | 825 |
| 0 | 603 | 603 | 0 | 12,319 | 0 | 12,319 |
| <u>0</u> | <u>58</u> | <u>58</u> | <u>0</u> | <u>9,859</u> | <u>0</u> | <u>9,859</u> |
| <u>\$267,839</u> | <u>\$13,869</u> | <u>\$281,708</u> | <u>\$ 0</u> | <u>\$621,326</u> | <u>\$ 0</u> | <u>\$621,326</u> |



SPILSBURY, HAMILTON, LEGENDRE & PACIERA

CERTIFIED PUBLIC ACCOUNTANTS

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(Retired)

MEMBERS OF
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
New Orleans Neighborhood Development Foundation
and Subsidiaries
New Orleans, Louisiana

We have audited the financial statement Of New Orleans Neighborhood Foundation and Subsidiaries (the "Foundation") (a nonprofit organization) as of and for the year ended December 31, 2006, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

FINDING NO. 2006-1

Inadequate Design of Internal Controls Over the Preparation of Financial Statements Being Audited.

During our audit, it was necessary to propose adjustments to record investment activity, accrued salaries, liabilities related to unpaid invoices, and in-kind contributions received during the year in order to properly state the financial statements in accordance with generally accepted accounting principles.

In addition, there were instances of grant revenue, receivables, and expenses that were recorded in the incorrect period. One instance contained errors relating to a prior year transaction recorded in 2007, thus requiring a prior period adjustment.

Also, the inter-company accounts required significant analysis, reconciliation, and adjustments to be properly reported in the financial statements. We recommend that the Foundation establish procedures to ensure these transactions have been properly recorded in the books of all inter-company entities involved. In addition, a monthly reconciliation of the related-party receivables and payables should then be performed to monitor the accuracy of these accounts.

We recommend that management work with their outside accountant to develop policies and procedures for recording accounting transactions on an accrual basis and reporting their internal financial statements in accordance with generally accepted accounting principles. In addition, the outside accountant should perform a monthly reconciliation of the parent and subsidiary inter-company account balances to ensure that related party transactions are reported appropriately for each organization.

FINDING NO. 2006-2

Failure in the Operation of Controls Over Cash

During our test of cutoff receipts and disbursements, we noted that several deposits in transit and outstanding checks had not been recorded in the general ledger during the period in which they were dated. (They were entered in the general ledger in the subsequent year.) In addition, these transactions had not been detected during the bank reconciliation process. Upon further review, it was noted that consistently throughout the year,

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

the computerized cash disbursement/receipt dates did not correspond with the manual check and deposit dates. At year end, this resulted in adjustments that were necessary to properly report the cash balance at year end.

We recommend that the Foundation work with their outside accountant to ensure that the manual check register corresponds with the computerized disbursement/receipt journals with respect to date, payee, amount, and description.

We also noted one check that was sent to a vendor with the payee line left blank. The recipient of the check wrote in the company name and deposited the check. The Foundation then mistakenly wrote in a different name on their copy of the check and attached it to the invoice. This error was not noted during the bank reconciliation process.

We recommend that the Foundation establish a policy for prohibiting the payee of a check to be left blank. In addition, we recommend that during the bank reconciliation process the outside accountant compare the "payee" on the cash disbursement journal to the "payee" on the cancelled check.

In addition, during our audit procedures, management was unable to provide supporting documentation for several disbursements. These disbursements were made to both vendors and employees. Whether the supporting documents had been misfiled or never obtained could not be determined by the audit team. However, we do recommend to management that it obtain and retain supporting documentation for every cash disbursement.

FINDING NO. 2006-3

Failure to Perform a Reconciliation of the Property and Equipment Subledger to the General Ledger

During our review of property and equipment, we noted that there is no procedure for reconciling detailed property and equipment records to the general ledger on a regular basis before adjustment. The lack of such a procedure has led to inaccurate reporting of property and equipment cost and depreciation expense in financial statements. To prevent the need for material adjustments to the property accounts at the end of each year, we suggest that the general ledger property and equipment accounts be reconciled to the detailed records on a monthly basis.

FINDING NO. 2006-4

Inadequate Segregation of Duties

It was noted during our disbursement testing that there were instances when an employee was both the payee and the check signer. In several of these instances there was no additional supporting documentation for the disbursement, other than the cancelled check. We recommend that a policy

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

be established that requires a board member to sign any check payable to an employee of the Foundation. In addition, the Foundation may also consider instituting a policy for dual signatures to be required for all checks greater than a certain dollar amount. In a small office, such as the Foundation, dual signatures can provide an element of segregation of duties.

In addition, since the size of the Foundation's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties, the Board of Directors should consider increasing its role in the financial affairs of the Foundation. This procedure would increase oversight and provide for independent review functions.

FINDING NO. 2006-5

Failure to Make Required Loan Payments

The Parkside Foundation loan agreement calls for an interest payment of 3% to be paid December 31 of each calendar year. It was noted that in the current year, this payment was not made or accrued.

The loan agreement with the Brown Foundation calls for annual payments of principal in the amount of \$1,250. The Foundation is currently four payments in arrears on this loan.

We recommend that these loans be reviewed and payment be made timely according to the loan agreement.

Management's Response to the Findings: Agreement with Findings.

All recommendations will be considered and the Foundation will implement policies and procedures that are both efficient and effective.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-1 through 2006-4 to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of New Orleans Neighborhood Development Foundation and Subsidiaries in a separate letter dated November 15, 2007.

New Orleans Neighborhood Development Foundation and Subsidiaries' response to the findings identified in our audit is described above. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Spilsbury Hamilton, Legendre & Paciera -

November 15, 2007